

AMENDED IN SENATE AUGUST 4, 2014

AMENDED IN ASSEMBLY MAY 1, 2014

CALIFORNIA LEGISLATURE—2013–14 REGULAR SESSION

## ASSEMBLY BILL

No. 1837

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**Introduced by Assembly Member Atkins**  
**(Coauthors: Assembly Members Fox, Medina, and V. Manuel Pérez)**

February 18, 2014

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*An act to amend Section 13997.6 of, and to add Article 4.5 (commencing with Section 12096.6) to Chapter 1.6 of Part 2 of Division 3 of Title 2 of, the Government Code, relating to state government. An act to add and repeal Title 15.8 (commencing with Section 97008) of, and to repeal Section 97013 of, the Government Code, relating to corrections.*

### LEGISLATIVE COUNSEL'S DIGEST

AB 1837, as amended, Atkins. ~~Governor's Office of Business and Economic Development: social innovation financing. Board of State and Community Corrections.~~

*Existing law establishes the Board of State and Community Corrections to collect and maintain available information and data about state and community correctional policies, practices, capacities, and needs, as specified. Existing law also requires the board to develop incentives for units of local government to develop comprehensive regional partnerships whereby adjacent jurisdictions pool grant funds in order to deliver services to a broader target population and maximize the impact of state funds at the local level.*

*This bill would enact, until January 1, 2020, the Social Innovation Financing Program, and would require the board to administer the*

*program. The bill would authorize the Chair of the Board of State and Community Corrections, upon appropriation of funds by the Legislature for deposit in the Recidivism Reduction Fund, to award grants in amounts of not less than \$500,000 and not more than \$2,000,000 to each of 3 counties, selected as specified, for the purpose of entering into a pay for success or social innovation financing contract, pursuant to which private investors agree to provide financing to service providers to achieve social outcomes agreed upon in advance and the government agency agrees to pay a return on the investment to the investors if successful programmatic outcomes are achieved by the service provider. The bill would limit the total amount of the grants awarded to \$5,000,000. The bill would require the chair to report annually to the Governor and Legislature on the status of program. The bill would also make legislative findings and declarations in this regard.*

~~The Economic Revitalization Act establishes the Governor's Office of Business and Economic Development, also known as "GO-Biz." GO-Biz, among other duties, serves the Governor as the lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth.~~

~~This bill would require GO-Biz to serve as the lead entity for efforts to explore social innovation financing, as defined. The bill would also require GO-Biz to develop recommendations for implementing social innovation finance models, including performance-based contracts, as defined, for achieving measurable social benefits. The bill would authorize GO-Biz to establish an advisory board to help guide the implementation of the act.~~

~~Other existing law creates the California Economic Development Fund in the State Treasury for the purpose of receiving federal, state, local, and private economic development funds, and receiving repayment of loans or grant proceeds and interest on those loans or grants.~~

~~The bill would establish the Social Innovation Account within the fund for the purpose of receiving federal, state, and local governmental moneys and private moneys to be used to implement social innovation financing methods. The bill would authorize GO-Biz to accept nonstate moneys for the purposes of facilitating, administering, or collaborating on social innovation financing and implementing performance-based contracts. The bill would require GO-Biz to post on its Internet Web site prescribed information on private donations. The bill would authorize GO-Biz to expend moneys in the account, upon appropriation,~~

~~to make payments to private investors and service providers and to fund other expenditures directly related to performance-based contracts and other social innovation financing methods and models.~~

~~The bill would also make legislative findings and declarations in this regard.~~

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. The Legislature finds and declares all of the  
2 following:

3 (a) It is the intent of the Legislature to establish partnerships  
4 between *local* governmental agencies, private investors, nonprofit  
5 organizations, and for-profit service providers to facilitate the use  
6 of social innovation financing to achieve measurable social  
7 benefits.

8 (b) Social innovation financing and the use of  
9 performance-based contracting can serve as an effective tool for  
10 addressing social and community development challenges where  
11 private sector innovations may be useful and multiple approaches  
12 may be appropriate. Research shows that the selection and design  
13 of these types of social interventions should be done with care in  
14 order to ensure successful outcomes. Among other criteria, selected  
15 projects should meet the following requirements:

16 (1) Address social needs that are unmet, high priority, and  
17 large-scale.

18 (2) Address target populations that are well-defined and can be  
19 measured with scientific rigor.

20 (3) Result in outcomes that are credible and readily available  
21 by cost-effective means.

22 (4) Propose interventions that are highly likely to achieve  
23 targeted impact goals.

24 (5) Be carried out by proven service providers that are prepared  
25 to scale with quality.

26 (6) Include safeguards to protect the well-being of the  
27 populations served.

28 (7) Be cost-effective programs that can demonstrate financial  
29 savings for government.

1     ~~(e) The focus of initial social innovation financing efforts should~~  
2 ~~be toward decreasing recidivism rates in our criminal justice~~  
3 ~~system, reducing homelessness, and promoting workforce~~  
4 ~~development.~~

5     ~~SEC. 2. Article 4.5 (commencing with Section 12096.6) is~~  
6 ~~added to Chapter 1.6 of Part 2 of Division 3 of Title 2 of the~~  
7 ~~Government Code, to read:~~

8  
9             ~~Article 4.5. Social Innovation Financing~~

10  
11     ~~12096.6. (a) The office shall serve as the lead entity for efforts~~  
12 ~~to explore social innovation financing and provide technical~~  
13 ~~assistance to local governments that are exploring the creation of~~  
14 ~~social innovation financing.~~

15     ~~(b) The office shall develop recommendations for implementing~~  
16 ~~social innovation finance models, including performance-based~~  
17 ~~contracts for achieving measurable social benefits. These~~  
18 ~~recommendations shall include, but are not limited to, the~~  
19 ~~following:~~

20     ~~(1) Strategies for engaging with private investors, nonprofit~~  
21 ~~organizations, and for-profit and nonprofit service providers.~~

22     ~~(2) Parameters for determining which projects are appropriate~~  
23 ~~for performance-based contracts.~~

24     ~~(3) Parameters for establishing baseline, setting performance~~  
25 ~~metrics, and measurable outcomes.~~

26     ~~(4) A model for a performance-based contract, including~~  
27 ~~parameters for writing a statement of work and quality standards~~  
28 ~~that encompasses the requirements of paragraph (3).~~

29     ~~(e) The office may establish an advisory board to help guide~~  
30 ~~the implementation of this chapter.~~

31     ~~(d) As used in this section only:~~

32     ~~(1) "Performance-based contracts" means contractual~~  
33 ~~agreements between government, private investors, and service~~  
34 ~~providers where private investors agree to provide up-front~~  
35 ~~financing to service providers to achieve social outcomes agreed~~  
36 ~~upon in advance and the government agency agrees to pay a return~~  
37 ~~on investment to the investors if successful programmatic outcomes~~  
38 ~~are achieved by the service provider.~~

39     ~~(2) "Social innovation financing" means an investment~~  
40 ~~arrangement using private funding to finance a social program~~

1 ~~administered by a nonprofit organization or for-profit service~~  
2 ~~provider on behalf of a government agency pursuant to a~~  
3 ~~performance-based contract.~~

4 SEC. 3. ~~Section 13997.6 of the Government Code is amended~~  
5 ~~to read:~~

6 ~~13997.6. (a) The California Economic Development Fund is~~  
7 ~~hereby created in the State Treasury for the purpose of receiving~~  
8 ~~federal, state, local, and private economic development funds, and~~  
9 ~~receiving repayment of loans or grant proceeds and interest on~~  
10 ~~those loans or grants.~~

11 ~~(b) Upon appropriation by the Legislature, moneys in the~~  
12 ~~California Economic Development Fund may be expended by the~~  
13 ~~Governor's Office of Business and Economic Development to~~  
14 ~~provide matching funds for loans or grants to public agencies,~~  
15 ~~nonprofit organizations, and private entities, and for other economic~~  
16 ~~development purposes, consistent with the purposes for which the~~  
17 ~~moneys were received.~~

18 ~~(c) (1) The Social Innovation Account is hereby established~~  
19 ~~within the California Economic Development Fund for the purpose~~  
20 ~~of receiving federal, state, and local governmental moneys and~~  
21 ~~private moneys that will be used to implement social innovation~~  
22 ~~financing methods including performance-based contracts, as~~  
23 ~~defined and authorized in Section 12096.6.~~

24 ~~(2) (A) The Governor's Office of Business and Economic~~  
25 ~~Development may accept nonstate moneys, including, but not~~  
26 ~~limited to, private sector funds, for the purposes of facilitating,~~  
27 ~~administering, or collaborating on social innovation financing and~~  
28 ~~implementing performance-based contracts.~~

29 ~~(B) The Governor's Office of Business and Economic~~  
30 ~~Development, for each private donation that it receives to fund a~~  
31 ~~social innovation finance activity or performance-based contract,~~  
32 ~~shall post a report on its Internet Web site within 30 days of~~  
33 ~~receiving that donation. The report shall contain all of the following~~  
34 ~~information:~~

- 35 ~~(i) The name and address of the donor.~~  
36 ~~(ii) The amount of the donation.~~  
37 ~~(iii) The date the donation was made.~~  
38 ~~(iv) The name and address of the entity receiving or using the~~  
39 ~~donation.~~

1 ~~(v) A brief description of the goods or services provided or~~  
2 ~~purchased, if any.~~

3 ~~(vi) A description of the specific purpose or event for which the~~  
4 ~~donation was made, if any.~~

5 ~~(3) Upon appropriation by the Legislature, the Governor's Office~~  
6 ~~of Business and Economic Development may expend moneys in~~  
7 ~~the Social Innovation Account to make payments to private~~  
8 ~~investors and service providers and to fund other expenditures~~  
9 ~~directly related to performance-based contracts and other social~~  
10 ~~innovation financing methods and models.~~

11 *SEC. 2. Title 15.8 (commencing with Section 97008) is added*  
12 *to the Government Code, to read:*

13  
14 *TITLE 15.8. SOCIAL INNOVATION FINANCING PROGRAM*

15  
16 *97008. For purposes of this title, the following definitions*  
17 *apply:*

18 *(a) "Board" means the Board of State and Community*  
19 *Corrections.*

20 *(b) "Chair" means the Chair of the Board of State and*  
21 *Community Corrections.*

22 *(c) "Social innovation financing contract," which may also be*  
23 *known and referred to as a "pay for success contract," refers to*  
24 *a contractual agreement between government, private investors,*  
25 *and service providers pursuant to which private investors agree*  
26 *to provide financing to service providers to achieve social*  
27 *outcomes agreed upon in advance and the government agency*  
28 *agrees to pay a return on the investment to the investors if*  
29 *successful programmatic outcomes are achieved by the service*  
30 *provider.*

31 *97009. (a) It is the intent of the Legislature that as part of the*  
32 *package to reduce recidivism in California, the concept of "pay*  
33 *for success" or social innovation financing should be included to*  
34 *take advantage of available philanthropic and private investment.*

35 *(b) The Legislature hereby declares that a variety of approaches*  
36 *have been shown to be successful in reducing recidivism, including*  
37 *addressing homelessness, substance abuse, and workforce*  
38 *participation within specific demographic groups.*

39 *97010. (a) There is hereby established the Social Innovation*  
40 *Financing Program.*

1     ***(b) The board shall administer the Social Innovation Financing***  
2     ***Program.***

3     ***(c) (1) The chair shall solicit proposals for social innovation***  
4     ***financing from county boards of supervisors and shall select three***  
5     ***counties to receive grant funding.***

6     ***(2) Before awarding a grant pursuant to paragraph (1), the***  
7     ***chair shall consult with the board regarding the quality of the***  
8     ***proposal for which the grant is to be awarded.***

9     ***(3) At a minimum, each application for a grant shall include***  
10    ***all of the following:***

11    ***(A) A description of the proposed social program.***

12    ***(B) A description of the organization's experience in providing***  
13    ***the proposed social program.***

14    ***(C) A description of the financial stability of the organization.***

15    ***(D) An identification of each component of the social program***  
16    ***to be provided.***

17    ***(E) A description of the manner in which the social program***  
18    ***will be provided.***

19    ***(F) A description of the recruitment or selection process, or***  
20    ***both, for participants in the social program.***

21    ***(G) The proposed quantifiable results upon which success of***  
22    ***the social program will be measured.***

23    ***(H) An itemization of all expenses proposed to be reimbursed***  
24    ***under the contract.***

25    ***(I) The amount of matching funds provided by the county.***

26    ***(J) A description of how the final payments for successful***  
27    ***programmatic outcomes are structured in the contract.***

28    ***(K) A description of all parties to the proposed contract,***  
29    ***including prospective investors and philanthropic foundations.***

30    ***97011. (a) Upon appropriation of funds by the Legislature for***  
31    ***deposit in the Recidivism Reduction Fund for the purposes of this***  
32    ***title, the chair shall award a grant in an amount of not less than***  
33    ***five hundred thousand dollars (\$500,000) and not more than two***  
34    ***million dollars (\$2,000,000) to each county selected pursuant to***  
35    ***Section 97010 for the purposes of entering into a pay for success***  
36    ***or social innovation financing contract. The total amount of the***  
37    ***grants awarded pursuant to this section shall not exceed five***  
38    ***million dollars (\$5,000,000). Any unused state moneys shall revert***  
39    ***to the General Fund.***

1     (b) Each contract described in subdivision (a) shall include all  
2     of the following:

3     (1) A requirement that the payment be conditioned on the  
4     achievement of specific outcomes based upon defined performance  
5     targets.

6     (2) An objective process by which an independent evaluator,  
7     selected by the chair, will determine whether the performance  
8     targets have been achieved.

9     (3) A calculation of the amount and timing of payments that  
10    would be earned by the service provider during each year of the  
11    agreement if performance targets are achieved as determined by  
12    the independent evaluator.

13    (4) A determination by the county that the contract will result  
14    in significant performance improvements and budgetary savings  
15    if the performance targets are achieved.

16    (5) A requirement that an amount equal to a minimum of 100  
17    percent of the Social Innovation Financing Program grant awarded  
18    to the county be matched by other county, federal, or private,  
19    including philanthropic, funds. The board may adopt regulations  
20    allowing in-kind contributions in lieu of monetary contributions  
21    for this purpose.

22    (c) Up to 10 percent of the grant funds awarded pursuant to  
23    this title may be used by the counties for administrative expenses  
24    related to the development of the pay for success or social  
25    innovation financing contract. The remainder shall be contributed  
26    toward final payments to investors for successful programmatic  
27    outcomes achieved, as stipulated in the contract.

28    (d) If, after receiving a grant pursuant to this title, a county  
29    does not enter into a contract for which the grant was awarded,  
30    the county shall return all moneys awarded by the board pursuant  
31    to this title, to the state.

32    97012. (a) The board may adopt regulations to implement this  
33    title.

34    (b) The board is encouraged to consult with relevant state  
35    agencies and departments in the evaluation of the social innovation  
36    financing program, including, but not limited to, the Governor's  
37    Office of Business and Economic Development and the Office of  
38    Health Equity, in order to determine the efficiency and viability  
39    of proposals.



1     (c) *The board may adopt a reasonable grant application fee*  
2     *that is sufficient to cover the expenses incurred by the board in*  
3     *reviewing an application for a grant pursuant to this title.*

4     97013. (a) *The chair shall report annually to the Governor*  
5     *and Legislature on the status of each ongoing social innovation*  
6     *financing program, including, but not limited to, a description of*  
7     *the desired outcome and an overview of the independent*  
8     *evaluator's findings. The report shall also contain an accounting*  
9     *of the moneys awarded.*

10    (b) *A report made pursuant to this section shall be made in*  
11    *accordance with the requirements of Section 9795.*

12    (c) *This section shall remain in effect only until January 1,*  
13    *2020, and as of that date is repealed, unless a later enacted statute,*  
14    *that is enacted before January 1, 2020, deletes or extends that*  
15    *date.*

16    97014. *This title does not create a statutory entitlement to*  
17    *services or any contractual obligation on the part of the state.*

18    97015. *This title shall remain in effect only until January 1,*  
19    *2020, and as of that date is repealed, unless a later enacted statute,*  
20    *that is enacted before January 1, 2020, deletes or extends that*  
21    *date.*